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PROGRAMME BUDGET FOR THE BIENNIUM 1994-1995

PROPOSED PROGRAMME BUDGET FOR THE BIENNIUM 1996-1997

Administrative expenses of the United Nations Joint Staff Pension Fund

Second report of the Advisory Committee on Administrative and Budgetary Questions

I. INTRODUCTION

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Standing Committee of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund (UNJSPF) (A/50/312), submitted to the General Assembly at its fiftieth session. During its consideration of this item, the Committee met with the Chairman of the Standing Committee of the Pension Board, the Secretary of the Pension Board and, with regard to audit operations and investments of the Pension Fund, with the representatives of the Secretary-General.

2. The report of the Standing Committee of UNJSPF is submitted pursuant to the decisions of the General Assembly contained in resolution 46/220 of 20 December 1991. In that resolution, the Assembly decided to consider the item "United Nations pension system" only in even-numbered years (that is, the non-budget years), with the understanding that the review and approval of all matters related to the expenses of UNJSPF, including the biennial budgets of the Fund, would be taken up by the General Assembly as a sub-item under the agenda item for the United Nations biennial programme budget.

3. In order to conform to resolution 46/220, the Pension Board decided to adjust its work programme and, accordingly, informed the General Assembly, in its report to it at the forty-seventh session (A/47/9), that the Standing

Committee of the Board was authorized to meet in odd-numbered years (that is, the budget years) to deal, inter alia, with the review of the administrative budget of the Fund and, accordingly, to submit recommendations to the General Assembly. In resolution 47/203 of 22 December 1992, the General Assembly took note of the additional responsibilities delegated to the Standing Committee of the Board.

4. The report of the Standing Committee includes the revised budget estimates for the biennium 1994-1995 and the budget proposal for the biennium 1996-1997. The Committee notes, from paragraph 27 of document A/50/312, that the Standing Committee requested the Secretary of the Pension Board to submit to the General Assembly the budget proposals for the biennium 1996-1997, as presented to the Standing Committee by the Secretary of the Board, including the staffing proposals of the Investment Management Service. As indicated in paragraph 21, the Standing Committee's review of the administrative budget of the Pension Fund focused mainly on the proposals relating to the internal audit requirements of the Fund and the staffing resources requested for its investment management.

II. REVISED BUDGET ESTIMATES FOR THE BIENNIUM 1994-1995

5. The Advisory Committee notes from paragraphs 10 and 11 of the above document that the revised estimates for the biennium 1994-1995 amount to $40,517,600, comprising $13,309,400 for administrative costs and $27,208,200 for investment costs. The revised estimates reflect an increase of $835,500 over the approved 1994-1995 estimates of $39,682,100. The Committee further notes, from paragraphs 12 and 14, that the proposed increase in administrative costs relates mainly to the provision of $300,000, endorsed by the Standing Committee in order to extend to the staff members of the Fund the early separation programme approved by the General Assembly for United Nations staff, as well as a net increase of $525,500 for investments costs, required under the contractual arrangements for advisory and custodial services.

III. BUDGET ESTIMATES FOR THE BIENNIUM 1996-1997

6. As indicated in paragraph 16, the administrative budget proposal of the Fund for the biennium 1996-1997 amounts to $40,601,700, as compared with the approved budget for 1994-1995 of $39,682,100 and revised proposal for 1994-1995 of $40,517,600. The budget proposal comprises administrative costs of $13,740,000 and investment costs of $26,861,700.

Administrative costs

7. The Committee notes from paragraphs 16 and 17 that the proposed administrative costs of $13,740,000 include $12,823,700 of recurrent administrative costs and $916,300 of non-recurrent costs. The recurrent administrative costs are estimated at approximately 0.19 per cent of the estimated total pensionable remuneration. Upon inquiry, however, the Committee was informed that, based on past experience, it was expected that the actual ratio of recurrent administrative costs to the actual total pensionable remuneration would be in the neighbourhood of 0.18 per cent of the pensionable

remuneration, in line with the provision estimated for administrative costs in the actuarial valuation of the Fund since the 1986 valuation. The Committee notes from paragraph 32 that, as presented to the Board in 1991, for the biennium 1994-1995, the initial estimate of administrative costs was 0.187 per cent of the estimated total pensionable remuneration for the biennium; however, these were reduced to 0.166 in the revised budget for 1994-1995. The Committee expects to review the actual budget performance ratios of the administration of the Fund in the context of its examination of the report of the Pension Board to the General Assembly at its fifty-first session.

8. As shown in table 4 and explained in paragraphs 56-59, under the administrative costs of the Pension Fund, the budget proposal for 1996-1997 includes staffing requirements of 106 established posts for the secretariat of the Fund (34 Professional and 72 General Service posts). These include three additional established posts: two posts in New York (one P-4 and one G-7) and one General Service post in Geneva, as well as the reclassification of four posts (one P-3 post to the P-4 level in Geneva and three General Service posts to the G-7 level in New York). The Committee was furnished with a copy of the proposed organization chart of the secretariat of the Pension Fund, which is attached to the present report as annex I. The Advisory Committee has no objection to this proposal.

9. As stated in paragraph 64 of annex III to the report of the Pension Board to the forty-ninth session of the General Assembly (A/49/9), the Board of Auditors had recommended in its report on the accounts of the Pension Fund for the year ended 31 December 1993 that "consideration should be given to formally designating the [then] Office of Inspections and Investigations as the internal auditors of the Fund or alternatively establishing arrangements for a separate internal audit function for the activities of the Fund". The Committee recalls that in paragraph 25 of its report (A/49/576), it had requested "the Pension Board to present to the Advisory Committee the financial implications of the two options mentioned by the Board of Auditors in the context of the budget proposal for the biennium 1996-1997".

10. As indicated in paragraph 41 of document A/50/312, the Pension Board requested its Secretary to pursue the issue of arrangements for internal audit services with the United Nations Office of Internal Oversight Services, so as to ascertain whether arrangements could be made to extend the services of that Office to the Pension Fund's secretariat on a regular basis (A/49/9, para. 151). Subsequently, in resolution 49/224, the General Assembly requested the Board to report to the Assembly, in the context of its budget submission for 1996-1997, on the arrangements recommended by the Board of Auditors for internal audit of the Fund and the corresponding costs. The Advisory Committee notes that the report of the Standing Committee presents only one of the two options mentioned by the Board of Auditors.

11. The Committee notes from paragraphs 44-54 of document A/50/312 that the Standing Committee of the Board was advised in detail by the Office of Internal Oversight Services as to the financial implications for the provision of audit services by that Office. As indicated in paragraph 53, the funds required to offset the cost of services to be provided by the Office would be approximately $964,200. This would cover the costs of staff and the provision for other

support such as training, electronic data-processing equipment and travel. This provision is to cover the cost of audit of both the administrative and investment operations of the Fund. Since the internal audit would also cover the functions performed by the secretariat of the Fund as the local secretariat of the United Nations Staff Pension Committee, it is expected that one third of the audit costs relating to the administrative functions of the Fund will be borne by the United Nations regular budget (A/50/312, paras. 23 and 52).

12. With regard to the audit costs of the investment operations of the Fund, the Committee notes from paragraph 54 that these would amount to $256,200, as proposed by the Office of Internal Oversight Services. Upon request, the Committee was provided with the number of internal audits carried out since 1983. There have been five internal audit examinations of the administrative functions of the Fund but, with the exception of the overall annual audit carried out by the Board of Auditors, it appears that no internal audit examination of the investment operations of the Fund has taken place, at least since 1983. The estimated audit expenses for investments ($256,200) would cover one P-4 post to serve as coordinator of the new internal audit function and $50,000 estimated as the cost of engaging an outside consultant to assist the Office of Internal Oversight Services in the investment audit. In this connection, the Committee was informed by the representative of the Secretary-General for investments of the Fund that the examination of portfolio management would be most appropriately carried out by an outside firm with demonstrated investment accounting expertise. Upon request, the Committee was provided with the intended scope of the investment audit (see annex II to the present report). The Committee trusts that such audit would be carried out by a firm selected under international competitive bidding in accordance with the financial regulations and rules of the United Nations.

13. The Committee notes from paragraphs 24 and 52 that the Standing Committee agreed with the proposal of the Secretary of the Pension Board of "funding for the Office of Internal Oversight Services for the biennium 1996-1997 at the level of $500,000, plus inflation, under 'contractual services', to cover the costs of the internal audit function, pending future action by the Board and the General Assembly during the next biennium regarding longer-term audit arrangements". The total contribution to the Office would be $512,000, including inflation adjustments. Administrative audit costs chargeable to the United Nations regular budget are estimated at $102,400; those relating to the administrative audit of the Fund are budgeted at $204,800; and those to cover the audit of investment operations are also estimated at $204,800 and budgeted under the investment costs of the Fund (A/50/312, para. 52 and annex III). In the view of the Advisory Committee, all internal audit costs should be reflected in the administrative budget of the Fund under a separate provision for internal audit, that is, separately from those costs budgeted for the administrative costs of the secretariat of the Fund and from those relating to the Investment Management Service.

14. As indicated in paragraph 41 of document A/50/312, in its report to the General Assembly in 1994 (A/49/9), the Pension Board had requested that the results of any internal audits, whether carried out by the internal audit services of the United Nations or any other entity, should be communicated to the Pension Board through its Secretary and not otherwise distributed, with the

exception of internal audits of the investment operations of the Fund, as the investment function has been delegated to the Secretary-General under the Regulations of the Fund (i.e., art. 19).

15. The functions and reporting requirements of the Office of Internal Oversight Services as mandated by the General Assembly in its resolution 48/218 B of 29 July 1994, paragraph 5 (c) and (e), are "to assist the Secretary-General in fulfilling its internal oversight responsibilities in respect of the resources and staff of the Organization" and "to submit to the Secretary-General reports that provide insight into the effective utilization and management of resources and the protection of assets; the Secretary-General shall ensure that all such reports are made available to the Assembly as submitted by the Office, together with any separate comments the Secretary-General may deem appropriate". The Advisory Committee points out that the internal audit costs of the administrative functions of the Pension Fund's secretariat are partially covered by the regular budget of the United Nations (see paras. 11 and 12 above). The Committee recommends that the Pension Board provide clarification and guidance to its Secretary as to the arrangements to be made with the Office of Internal Oversight Services in respect of reporting on internal audit. The Board should also clarify whether the arrangements with that Office should be on the basis of a fee for service rather than the financing of a dedicated unit (including staff) in the Office.

Investment costs

16. The Committee notes from paragraphs 19, 29 and 68 of document A/50/312 that the proposed investments costs of the Pension Fund's Investment Management Service for 1996-1997 amount to $26,861,700, "all recurrent", and include provisions of $204,800 for internal audit costs (see annex III B to A/50/312).

17. As shown in table 6 and discussed in paragraphs 71-73, the budget proposal for the Fund's Investment Management Service for 1996-1997 includes staffing requirements of 30 established posts (12 Professional and 18 General Service posts). These include the additional staff requirements of six posts (one D-1, one P-5, one P-4 and three General Service posts) and reclassification of two Professional posts, the posts of the Chief of the Investment Management Service (from the D-1 to the D-2 level) and of the Information Systems Analyst (from the P-3 to the P-4 level).

18. Upon inquiry, the Committee was informed that all posts, including the four temporary posts (one P-3 and three General Service posts) which were authorized in 1995, were already classified by the Office of Human Resources Management (the Professional post at the P-4 level and the General Service posts at the G-6, G-5 and G-4 levels). The request for conversion of these temporary posts to established posts has been included in the budget proposal for the biennium 1996-1997. (See the proposed organization chart of the Fund's Investment Management Service in annex III to the present report.)

19. The Committee notes from paragraph 26 that the Standing Committee "was unable to take a position on the staffing arrangements proposed for the Investment Management Service, particularly as regards the classification of the post of the Chief of the Investment Management Service".

20. With regard to the role of the Board on investments of the Fund, the Committee sought clarification of the statement in paragraph 25 that the Board "retains important responsibilities as regards both the investment policies and transactions, as recognized in article 19 of the Regulations". The Committee was provided with clarifications prepared for the Under-Secretary-General for Administration and Management by the Office of Legal Affairs. The Committee was informed that under the provisions of article 19 of the UNJSPF Regulations and Rules (which are adopted by the General Assembly, upon the recommendation of the Board) the Secretary-General is solely responsible and accountable for investment of the assets of the Fund. Furthermore, it was noted that "in carrying out that responsibility, the Secretary-General consults with the Investment Committee, the members of whom he appoints. Under article 19 (a), the role of the Pension Board is "to make 'observations and suggestions ... on the investments policy'"; however, "the Secretary-General is not bound to follow such observations and suggestions" and he "alone bears the responsibility for the investment of the assets of the Fund". Thus, the Office of Legal Affairs indicated that "as a fiduciary for the interest of the participants and beneficiaries of the Fund, the Secretary-General has been accorded the powers of an agent with respect to the investment of the assets of the Fund".

21. With regard to the expenses for the administration of the Fund, the Office of Legal Affairs also provided clarification on the issue. The Committee was informed that "the Pension Board is required, pursuant to article 15 (b) of the Regulations, to submit a biennial estimate of expenses to the General Assembly for approval". It was indicated that "additionally, article 15 (a) provides that expenses incurred by the Board in the administration of the Regulations shall be met by the Fund". Thus, it was concluded by the Office of Legal Affairs that "the General Assembly has power to approve the budget for expenses of the Fund, and the Pension Board has the power to formulate a budget concerning, and to incur expenses in respect of, the administration of the Fund".

22. Clarification was also provided to the Committee with regard to the role of the Secretary-General vis-à-vis the role of the Secretary of the Pension Board. As indicated by the Office of Legal Affairs, "the Secretary-General appoints the Secretary and Deputy Secretary of the Pension Board on the recommendation of the Board". Additionally, it was noted that "the Secretary-General has the power to appoint such further staff as may be required from time to time by the Board." However, the Office of Legal Affairs pointed out that in accordance with the Fund's Regulations (art. 7 (c)), "the Secretary of the Pension Board shall be the chief executive officer of the Fund and shall perform his functions under the authority of the Board"; thus, he "acts under the authority of the Pension Board in carrying out the Pension Board responsibilities for the administration of the Fund. The responsibilities of the Pension Board include the formulation of the Budget for the expenses of the administration of the Fund, determination of the requirements of the staff for the secretariat support to the Pension Board, and the day-to-day administration of the Fund's assets".

23. Thus, as clarified by the Office of Legal Affairs, in the area of administration, duties and responsibilities fall upon the Pension Board and the Secretary of the Pension Board acting under the authority of the Pension Board, and, in carrying out its responsibilities for the administration of the Fund,

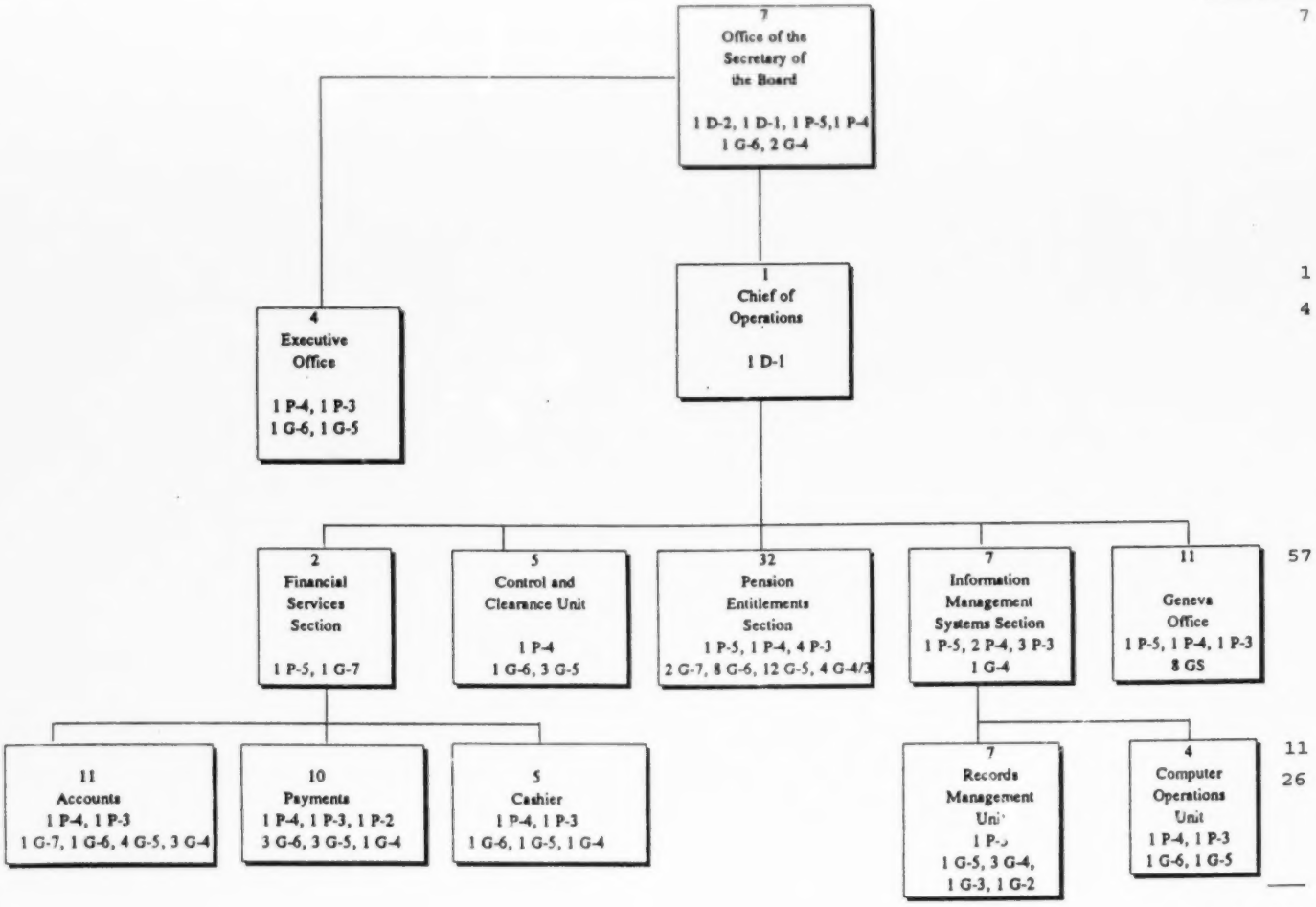
the Pension Board is accountable to the General Assembly. In the view of the Office of Legal Affairs, any differences between the Pension Board and the Secretary-General "as to the way in which the Pension Board exercises its powers over matters such as the budget proposals for the administration of the Fund, if they are not able to be resolved at sessions of the Pension Board, would have to be resolved by the Assembly to which the Pension Board must report and which approves the budget for the expenses related to the administration of the Fund."

24. Under the circumstances, in view of the position taken by the Standing Committee of the Board, as mentioned in paragraph 19 above, the Advisory Committee recommends that, for the biennium 1996-1997, the staffing proposals for the Investment Management Service, including the issue of the classification of the post of the Chief of the Investment Management Service, be addressed at the Pension Board's next regular session in 1996.

ANNEX I

Proposed organization chart of the United Nations Joint Staff Pension Fund

Pension Fund secretariat



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ANNEX II

Investment audit scope

1. The scope of the investment audit will cover the following:

(a) Whether all existing investments are recorded;

(b) It would focus on the effectiveness and appropriateness of the process of: (i) determining an investment strategy; and (ii) executing that strategy, including determination of asset allocation, investment selections and portfolio management as to both monitoring and risk abatement techniques. In big measure the audit should seek to confirm also that custody arrangements are sufficient to safeguard assets in the physical sense;

(c) In requesting outside expertise for the operational audit, it is recognized that the investment process involves sophisticated portfolio selection and monitoring techniques and the application of experience in the investment field to measure whether prudent investment decisions are being made, effectively controlled and risk protected.

2. Specifically, the audit would include the following matters:

(a) Audit of the approval process as to whether all transactions are effected within the delegated authority from the representative of the Secretary-General to the staff of the Investment Management Service. There are different levels of delegation set by amounts per transaction and all transactions must be signed by two officers within their delegated authority;

(b) General review of the portfolio in terms of average holding in relation to the size of the markets and the size of the companies;

(c) Audit of investment performance based on the established benchmark used for comparison, and as to whether the returns meet the objective of the Fund;

(d) Assessment of the efficiency of investment selection and trading by tracking the timeliness of the portfolio manager's decisions - measurement of the "implementation shortfall" or slippage between decision value and realized value;

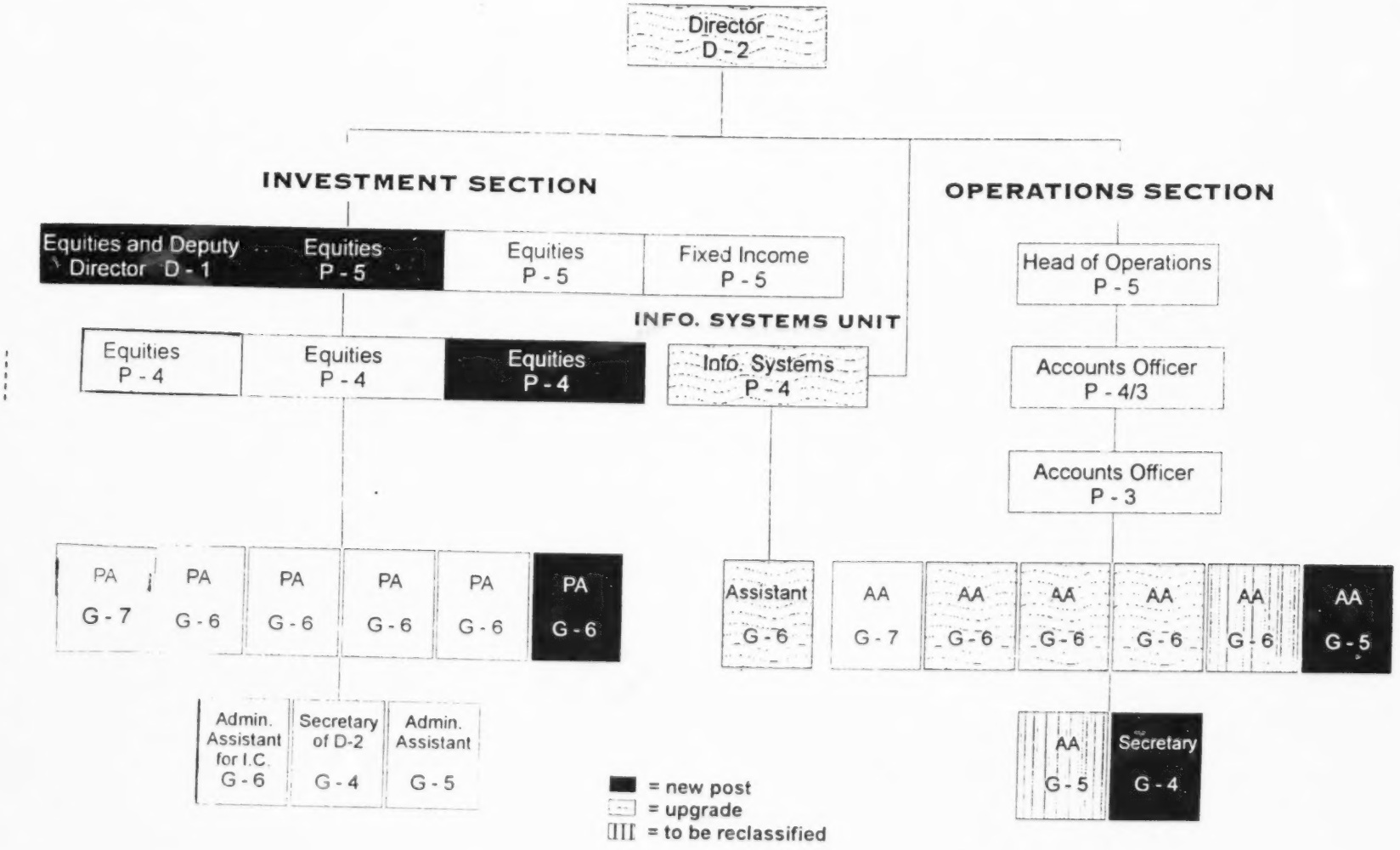
(e) Analysis of the value and cost of an array of issues from research to brokerage related to the investment process.

3. The Investment Management Service has two in-house systems: (a) a Portfolio Management System (PMS), which was installed a year ago; and (b) the Investment Control and Accounting System (INCAS), which provides automated accounting for the transaction activities of the investments of the Fund. An accounting firm, with expertise in portfolio management and investment accounting systems, would review and evaluate both systems, especially with respect to internal control procedures.

ANNEX III

Investment Management Service

PROPOSED STAFFING CHART


Director
D - 2
INVESTMENT SECTION
OPERATIONS SECTION
Equities and Deputy Director D - 1
Equities P - 5
Equities P - 5
Fixed Income P - 5
INFO. SYSTEMS UNIT
Equities P - 4
Equities P - 4
Equities P - 4
Info. Systems P - 4
Head of Operations P - 5
Accounts Officer P - 4/3
Accounts Officer P - 3
PA G - 7
PA G - 6
PA G - 6
PA G - 6
PA G - 6
PA G - 6
Assistant G - 6
AA G - 7
AA G - 6
AA G - 6
AA G - 6
AA G - 6
AA G - 5
Admin. Assistant for I.C. G - 6
Secretary of D-2 G - 4
Admin. Assistant G - 5
AA G - 5
Secretary G - 4
= new post
= upgrade
= to be reclassified